

CITY OF VICTORIA, KANSAS
Victoria, Kansas

Financial Statements with Independent Auditors' Report

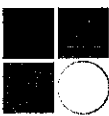
For the Year Ended December 31, 2006

CITY OF VICTORIA, KANSAS
Financial Statements with Independent Auditors' Report
For the Year Ended December 31, 2006

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council Members
City of Victoria, Kansas
Victoria, Kansas 67671

We have audited the accompanying financial statements of the **City of Victoria, Kansas**, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the **City of Victoria, Kansas'** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the **City of Victoria, Kansas** has prepared its financial statements using accounting practices prescribed or permitted by the State of Kansas which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the **City of Victoria, Kansas**, as of December 31, 2006, or changes in financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the **City of Victoria, Kansas**, as of December 31, 2006, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Adam Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

August 27, 2007

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CITY OF VICTORIA, KANSAS
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2006

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Funds							
General Fund	\$ 145,359	-	379,896	328,680	197,575	9,943	207,518
Special Revenue Funds							
Employee Benefit	6,649	-	56,024	55,791	6,882	-	6,882
Special Highway	72,630	-	39,147	67,909	43,868	1,061	44,929
Special Machinery	46,109	-	8,810	-	54,919	-	54,919
Special Park & Recreation	6,432	-	1,285	-	7,718	-	7,718
Equipment Reserve	75,300	-	32,000	7,052	100,248	-	100,248
Capital Improvements	53,227	-	22,000	2,186	73,041	-	73,041
Debt Service Fund							
Bond and Interest	14,254	-	63,566	58,920	18,900	-	18,900
Proprietary Fund							
Enterprise Funds							
Water Utility	82,176	-	117,961	155,612	44,525	2,125	46,650
Sewer Utility	182,220	-	118,622	127,082	173,760	1,519	175,279
Refuse Utility	62,401	-	93,930	101,386	54,945	1,636	56,581
Total Reporting Entity	\$ 747,757	-	933,242	904,618	776,381	16,284	792,665

Composition of Cash:

Checking Accounts	
Sunflower Bank	\$ 626,854
Gorham State Bank	165,811
Total Reporting Entity	\$ 792,665

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2006

Fund	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
Governmental Funds					
General Fund	\$ 357,420	-	357,420	328,680	28,740
Special Revenue Funds					
Employee Benefit	57,000	-	57,000	55,791	1,209
Special Highway	103,613	-	103,613	67,909	35,704
Special Park & Recreation	6,895	-	6,895	-	6,895
Debt Service Fund					
Bond and Interest	68,965	-	68,965	58,920	10,045
Proprietary Fund					
Enterprise Funds					
Water Utility	190,096	-	190,096	155,612	34,484
Sewer Utility	154,097	-	154,097	127,082	27,015
Refuse Utility	135,017	-	135,017	101,386	33,631
Totals	\$ 1,073,103	-	1,073,103	895,380	177,723

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

General Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2006

(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 205,395	222,811	224,848	(2,037)
Delinquent	2,103	887	-	887
Motor Vehicle	37,634	40,050	37,736	2,314
Total Taxes	245,132	263,748	262,584	1,164
Intergovernmental				
Local Alcoholic Liquor Tax	1,494	1,186	1,692	(506)
Licenses and Permits				
Zoning Fees	530	425	-	425
Franchise Fees	35,263	52,471	20,000	32,471
Licenses and Permits	3,362	4,150	2,000	2,150
Total Licenses and Permits	39,155	57,046	22,000	35,046
Fines and Forfeitures				
Fines	682	1,182	1,000	182
Use of Money and Property				
Interest	14,375	25,001	3,500	21,501
Swimming Pool	4,209	4,736	3,500	1,236
Total Use of Money and Property	18,584	29,737	7,000	22,737
Miscellaneous	3,293	26,997	-	26,997
Total Cash Receipts	\$ 308,340	379,896	294,276	85,620

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

General Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2006

(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Expenditures				
General Government				
Personal Services	\$ 21,955	22,250	22,000	(250)
Commodities	6,938	6,636	10,000	3,364
Contractual Services	27,150	27,944	22,000	(5,944)
Capital Outlay	2,328	3,500	4,000	500
Total General Government	58,371	60,330	58,000	(2,330)
Police Department				
Personal Services	90,781	101,533	90,000	(11,533)
Commodities	7,451	9,602	10,000	398
Contractual Services	3,865	6,742	12,000	5,258
Capital Outlay	-	-	5,000	5,000
Total Police Department	102,097	117,877	117,000	(877)
Fire Department				
Personal Services	10,278	7,970	9,500	1,530
Commodities	4,610	5,090	5,500	410
Contractual Services	4,479	3,724	5,000	1,276
Capital Outlay	830	3,797	7,500	3,703
Total Fire Department	20,197	20,581	27,500	6,919
Park Department				
Personal Services	17,785	16,514	15,000	(1,514)
Commodities	1,791	1,896	3,000	1,104
Contractual Services	794	799	2,000	1,201
Capital Outlay	-	239	2,500	2,261
Total Park Department	20,370	19,448	22,500	3,052
Street Department				
Personal Services	6,829	573	13,260	12,687
Commodities	2,390	1	6,000	5,999
Contractual Services	3,855	1,507	6,000	4,493
Total Street Department	13,074	2,081	25,260	23,179
Totals Carried Forward	\$ 214,109	220,317	250,260	29,943

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

General Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2006

(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Totals Brought Forward	\$ 214,109	220,317	250,260	29,943
Street Lighting				
Contractual Services	17,314	18,071	20,000	1,929
Pool Department				
Personal Services	10,683	12,288	16,000	3,712
Commodities	9,419	8,206	5,000	(3,206)
Contractual Services	1,051	2,901	2,500	(401)
Capital Outlay	4,215	2,272	5,000	2,728
Total Pool Department	25,368	25,667	28,500	2,833
Planning Commission				
Personal Services	1,271	1,254	2,060	806
Commodities	74	-	100	100
Contractual Services	415	546	1,500	954
Total Planning Commission	1,760	1,800	3,660	1,860
Victoria Health Facility	-	6,825	-	(6,825)
Herzogfest	1,000	1,000	1,000	-
Industrial Development	1,000	1,000	-	(1,000)
Transfers Out	15,000	54,000	54,000	-
Total Expenditures	275,551	328,680	357,420	28,740
Receipts Over (Under) Expenditures	32,789	51,216		
Unencumbered Cash, January 1	113,570	146,359		
Unencumbered Cash, December 31	\$ 146,359	197,575		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Employee Benefit Fund

Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2006
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 32,204	48,482	48,927	(445)
Delinquent	541	158	-	158
Motor Vehicle	9,797	7,384	5,917	1,467
Total Cash Receipts	42,542	56,024	54,844	1,180
Expenditures				
Personal Services	54,182	55,791	57,000	1,209
Receipts Over (Under) Expenditures	(11,640)	233		
Unencumbered Cash, January 1	18,289	6,649		
Unencumbered Cash, December 31	\$ 6,649	6,882		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

Special Highway Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2006

(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Intergovernmental				
State Gasoline Tax	\$ 34,361	33,753	35,240	(1,487)
Reimbursements	1,817	5,394	-	5,394
Total Cash Receipts	36,178	39,147	35,240	3,907
Expenditures				
Personal Services	13,611	16,572	15,000	(1,572)
Commodities	5,998	8,230	15,000	6,770
Contractual Services	30,492	4,729	20,000	15,271
Capital Outlay	-	29,568	44,803	15,235
Transfers Out	9,205	8,810	8,810	-
Total Expenditures	59,306	67,909	103,613	35,704
Receipts Over (Under) Expenditures	(23,128)	(28,762)		
Unencumbered Cash, January 1	95,758	72,630		
Unencumbered Cash, December 31	\$ 72,630	43,868		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Machinery Fund
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2006
(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 9,205	8,810
Expenditures		
Capital Outlay	-	-
Receipts Over (Under) Expenditures	9,205	8,810
Unencumbered Cash, January 1	36,904	46,109
Unencumbered Cash, December 31	\$ 46,109	54,919

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Park & Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2006
(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Intergovernmental				
Local Alcoholic Liquor Tax	\$ 1,494	1,186	1,215	(29)
Donations	1,200	100	-	100
Total Cash Receipts	<u>2,694</u>	<u>1,286</u>	<u>1,215</u>	<u>71</u>
Expenditures				
Commodities	<u>7,283</u>	<u>-</u>	<u>6,895</u>	<u>6,895</u>
Total Expenditures	<u>7,283</u>	<u>-</u>	<u>6,895</u>	<u>6,895</u>
Receipts Over (Under) Expenditures	(4,589)	1,286		
Unencumbered Cash, January 1	<u>11,021</u>	<u>6,432</u>		
Unencumbered Cash, December 31	<u>\$ 6,432</u>	<u>7,718</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Equipment Reserve Fund
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2006
(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 10,000	32,000
Cash Expenditures		
Capital Outlay	-	7,052
Receipts Over (Under) Expenditures	10,000	24,948
Unencumbered Cash, January 1	65,300	75,300
Unencumbered Cash, December 31	\$ 75,300	100,248

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Capital Improvements Fund
 Statement of Cash Receipts and Expenditures - Actual
 For the Year Ended December 31, 2006
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Aid	\$ 1,903	-
Transfers In	5,000	22,000
Total Cash Receipts	6,903	22,000
Expenditures		
Commodities	14,974	2,186
Receipts Over (Under) Expenditures	(8,071)	19,814
Unencumbered Cash, January 1	61,298	53,227
Unencumbered Cash, December 31	\$ 53,227	73,041

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Bond and Interest Fund

Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2006
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 54,961	39,056	39,397	(341)
Delinquent	634	240	-	240
Motor Vehicle	11,740	11,128	10,084	1,044
Special Assessments	32,237	10,364	8,755	1,609
Interest	1,597	2,778	-	2,778
Total Cash Receipts	<u>101,169</u>	<u>63,566</u>	<u>58,236</u>	<u>5,330</u>
Expenditures				
Principal	70,000	30,000	30,000	-
Interest	32,655	28,915	28,915	-
Commission Fees	7	5	50	45
Cash Basis Reserve	-	-	10,000	10,000
Total Expenditures	<u>102,662</u>	<u>58,920</u>	<u>68,965</u>	<u>10,045</u>
Receipts Over (Under) Expenditures	(1,493)	4,646		
Unencumbered Cash, January 1	<u>15,747</u>	<u>14,254</u>		
Unencumbered Cash, December 31	<u>\$ 14,254</u>	<u>18,900</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

Water Utility Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2006

(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Water Sales	\$ 92,880	89,833	91,500	(1,667)
Special Assessments	16,835	16,975	17,000	(25)
Water Taps	-	225	500	(275)
Late Charges	2,514	3,142	1,000	2,142
Interest	2,111	2,912	1,000	1,912
Water Protection Fee	1,640	1,676	1,200	476
Miscellaneous	3,143	3,198	-	3,198
Total Cash Receipts	119,123	117,961	112,200	5,761
Expenditures				
Personal Services	61,248	63,586	70,000	6,414
Commodities	45,911	63,454	20,000	(43,454)
Contractual Services	12,684	20,515	10,000	(10,515)
Capital Outlay	-	8,057	90,096	82,039
Total Expenditures	119,843	155,612	190,096	34,484
Receipts Over (Under) Expenditures	(720)	(37,651)		
Unencumbered Cash, January 1	82,896	82,176		
Unencumbered Cash, December 31	\$ 82,176	44,525		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Sewer Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2006
(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sewer Service Charges	\$ 119,472	118,622	125,000	(6,378)
Expenditures				
Personal Services	30,751	31,941	35,000	3,059
Commodities	9,712	20,194	20,000	(194)
Contractual Services	3,539	3,637	10,000	6,363
Capital Outlay	-	-	20,000	20,000
Revolving Loan Principal	39,933	41,298	69,097	27,799
Revolving Loan Interest	29,063	27,799	-	(27,799)
Revolving Loan Service Fees	2,314	2,213	-	(2,213)
Total Expenditures	115,312	127,082	154,097	27,015
Receipts Over (Under) Expenditures	4,160	(8,460)		
Unencumbered Cash, January 1	178,060	182,220		
Unencumbered Cash, December 31	\$ 182,220	173,760		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

Refuse Utility Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2006

(With Comparative Actual Totals for the Prior Year Ended December 31, 2005)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Refuse Charges	\$ 89,453	93,930	85,600	8,330
Expenditures				
Personal Services	36,077	35,703	38,000	2,297
Commodities	3,289	4,430	5,000	570
Contractual Services	48,960	61,253	40,000	(21,253)
Capital Outlay	50,000	-	52,017	52,017
Total Expenditures	138,326	101,386	135,017	33,631
Receipts Over (Under) Expenditures	(48,873)	(7,456)		
Unencumbered Cash, January 1	111,274	62,401		
Unencumbered Cash, December 31	\$ 62,401	54,945		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2006

1. Summary of Significant Accounting Policies

The City has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies:

A. Financial Reporting Entity

The **City of Victoria, Kansas** was incorporated under the provisions of the State of Kansas. The governing body consists of an elected mayor and five elected council members. The City provides the following services: public safety (police and fire), streets, culture and recreation, public improvements, sanitation, water utility, and general administrative services. The City receives funding from local, state, and federal governmental sources and must comply with the requirements of these funding sources.

The **City of Victoria, Kansas** is the primary government as defined in GASB #14 and further amended by GASB #39. The City Council is elected by the public. The Council has the authority to make decisions, levy taxes, influence operations and has the primary accountability in fiscal matters.

The City has no separate legal component units that are controlled or dependent on the City.

B. Basis of Presentation – Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the City for the year of 2006:

Governmental Funds

General Fund – To report as the primary fund of the City and to account for all financial resources not reported in other funds.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Debt Service Fund - To account for the accumulation of resources for and the payment of interest and principal on general long-term debt and the financing of special assessments which are general obligations of the City.

Proprietary Fund

Enterprise Funds - To account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2006

C. Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the statutory basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

D. Departure from Accounting Principles Generally Accepted in the United States

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservation of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the year in accordance with generally accepted accounting principles. General capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

E. Accounting for Capital Assets and Depreciation

The City does not maintain a record of capital assets used in performance of general government operations and the proprietary funds as required by generally accepted accounting principles.

F. Accounting for Long-Term Liabilities

The accounting and reporting treatment applied to the long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and fiduciary funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Long-term liabilities expected to be financed from governmental funds are not accounted for in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2006

G. Budgets

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds and the following special revenue funds:

Special Machinery
Equipment Reserve
Capital Improvements

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

H. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2006

I. Deposits

The City follows the practice of pooling cash of all funds. Each fund's portion of total cash is summarized by fund type in the Summary of Cash Receipts, Cash Disbursements, and Unencumbered Cash.

As of December 31, 2006, the City had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City had no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City did not use "peak periods" during 2006. All deposits were legally secured at December 31, 2006.

At December 31, 2006, the City's carrying amount of deposits was \$792,665 and the bank balance was \$805,781. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$237,132 was covered by federal depository insurance and \$568,649 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

J. Property Tax Calendar

Property taxes are collected and remitted to the City by the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major property tax payments are received January through July and are recognized as revenue in the year received.

K. Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods, are recorded as expenditures during the year of purchase as required by state statutes.

L. Special Assessments

Projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2006

M. Compensated Absences

The City's policy regarding vacations is that an employee must work for a period of one year before any vacation is accumulated at which time the employee is then allowed ten working days. After ten years, one day is accumulated for each year of service up to a maximum of twenty days. As of December 31, 2006 the maximum potential liability for accrued vacation is \$9,273.

The policy regarding sick leave is that an employee can accumulate 120 days of sick leave at twelve days a year. Any accumulation is canceled upon termination of employees with less than five years of service. All full-time employees who have completed five years or more of employment will be remunerated for sick leave on a graduated scale to a maximum of \$2,400 after twenty-six years of employment. As of December 31, 2006, the cost of accumulated sick leave has been calculated at \$3,360.

N. Defined Benefit Pension Plan

Plan Description - The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for January 1, 2006 through June 30, 2006 was 4.61% and for July 1, 2006 through December 31, 2006 was 4.81%. The City employer contributions to KPERS for the years ending December 31, 2006, 2005 and 2004 were \$8,544, \$7,544, and \$6,506, respectively, equal to the statutory required contributions for each year.

O. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the City for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

P. Deferred Compensation Plan

City employees may participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or in case of limited specific circumstances.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2006

P. Deferred Compensation Plan (cont.)

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income that is attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

2. Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis as authorized by Kansas Statutes. The City's operating transfers and statutory authority for December 31, 2006 were as follows:

<u>From</u>	<u>To</u>	<u>Authority</u>	<u>Amount</u>
General	Capital Improvements	K.S.A. 12-1,118	\$ 32,000
General	Equipment Reserve	K.S.A. 12-1,117	22,000
Special Highway	Special Machinery	K.S.A. 68-589	8,810
			<u>\$ 62,810</u>

3. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Risk Management – Claims and Judgements

The City is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has been able to obtain errors and omissions insurance at a cost it considered to be economically justifiable.

The City carries commercial insurance for all other risks of loss, including property, general liability, inland marine, crime, umbrella, auto and fidelity bond coverage.

The City has elected to obtain comprehensive and collision coverage on all City owned vehicles.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At December 31, 2006, the financial statements do not include liabilities for anticipated costs.

5. Litigation

The City is party to various legal proceedings such as foreclosure actions and tax appeals, which normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the funds of the City.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2006

6. Grants and Shared Revenues

The City participates in numerous state and federal grant programs which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audits, is not believed to be material.

7. Comparative Data

Comparative data for the prior year has been presented in Statement 3 of the accompanying financial statements in order to provide an understanding of changes in the City's cash and unencumbered cash balances. However, complete comparative data (i.e., presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

8. Long Term Debt

The City has the following types of Long Term Debt:

General Obligation Bonds

The City issued general obligation bonds in the amount of \$675,000 to finance various street improvements.

Revolving Loan

The City entered into a \$1,043,195 revolving loan agreement on September 14, 2002 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the construction of a sludge basin. As of December 31, 2006, the City had an outstanding balance of \$854,246.

Capital Lease

The City has entered into a lease agreement with an option to purchase at the expiration of the lease term. The lease contains a fiscal funding clause.

Changes in long-term liabilities for the City at December 31, 2006 and current maturities of long-term debt and interest for the next five years and five year increments through maturity are included on the next two pages.

CITY OF VICTORIA, KANSAS
Schedule of Changes in Long Term Debt
For the Year Ended December 31, 2009

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Series 1999A	5.1% - 6.5%	05/05/00	\$ 675,000	12/01/19	530,000	-	(30,000)	(30,000)	500,000	28,915
Revolving Loan										
KDHE - Sludge Basin Construction	Various	09/14/02	1,043,195	09/01/22	895,544	-	(41,298)	(41,298)	854,246	27,799
Capital Lease										
Trash Truck	4.25%	07/29/05	44,469	07/29/08	44,469	-	(16,638)	(16,638)	27,831	1,568
Subtotal			<u>1,762,664</u>		<u>1,470,013</u>	<u>-</u>	<u>(87,936)</u>	<u>(87,936)</u>	<u>1,382,077</u>	<u>58,282</u>
Amount to be Provided for Compensated Absences	N/A	N/A	N/A	N/A	13,403	-	(770)	(770)	12,633	-
Total Long Term Debt			<u>\$ 1,762,664</u>		<u>1,483,416</u>	<u>-</u>	<u>(88,706)</u>	<u>(88,706)</u>	<u>1,394,710</u>	<u>58,282</u>

CITY OF VICTORIA, KANSAS

Schedule of Maturity of Long Term Debt
For the Year Ended December 31, 2006

	2007	2008	2009	2010	2011	2012-2016	2017-2021	2022	Total
Principal									
General Obligation Bond - Series 1999A	\$ 30,000	35,000	35,000	40,000	40,000	205,000	115,000	-	500,000
Revolving Loan	42,710	44,170	45,680	47,241	48,857	270,509	320,020	35,061	854,248
Capital Lease	17,359	10,472	-	-	-	-	-	-	27,831
Total Principal	90,069	89,642	80,680	87,241	88,857	475,509	435,020	35,061	1,382,079
Interest									
General Obligation Bond - Series 1999A	27,295	25,675	23,750	21,825	19,785	65,396	13,513	-	197,239
Revolving Loan	26,491	25,138	23,740	22,293	20,797	79,695	33,834	550	232,538
Capital Lease	847	149	-	-	-	-	-	-	996
Total Interest	54,633	50,962	47,490	44,118	40,582	145,091	47,347	550	430,773
Total Principal and Interest	\$ 144,702	140,604	128,170	131,359	129,439	620,600	482,367	35,611	1,812,852